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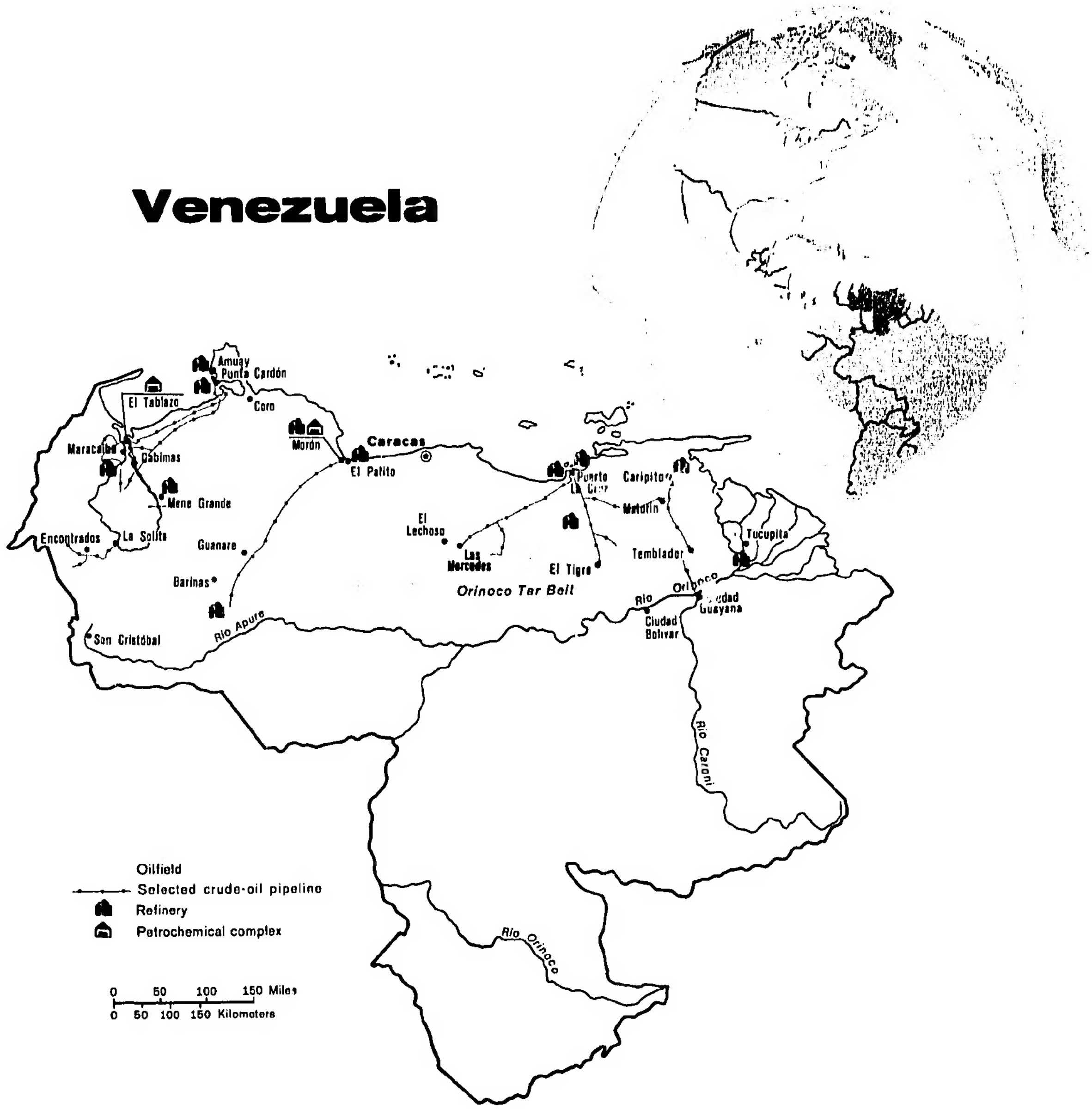

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style will be those of a pragmatic businessman, not those of a demagogue or ideologue. Perez is unencumbered with the ideological baggage of his Social Christian predecessor, and he senses no practical or political advantage in joining the ranks of Yankee-baiters. He has gone along with Caldera's decision to take a percentage of oil royalties in kind, but has passed up opportunities to threaten a forced lowering of production during the oil crisis. In essence, Perez has no basic disposition to be an adversary in relations with the US, with which Venezuela—and his party particularly—has enjoyed cordial ties for a long time.

Yet Perez has expressed dissatisfaction over what he sees as disequilibrium in US-Venezuelan relations. Venezuela, he believes, should receive more from the US in exchange for being a dependable supplier of oil—more, that is, than high prices and an assured market. Specifically, Perez hopes to achieve:

- the removal of trade barriers to non-traditional exports that he hopes to develop, such as metal products, chemicals, and petrochemicals;

- assured adequate supplies of industrial raw materials and agricultural products (cotton, black beans, wheat, soybeans, pulp and newsprint, synthetic fibers, stainless steel, ferrous scrap, and equipment such as farm machinery—all of which are in short supply world-wide);

- technical and managerial assistance for development projects at reasonable prices.

Perez will probably be most interested in negotiating the general terms of an over-all economic agreement that includes oil, trade, tariffs, and other pertinent fields. He will be hesitant to negotiate a government-to-government agreement based strictly on oil, having already expressed his concern about the pitfalls of such an agreement. He will want to keep fairly open the range of options he has in such matters as the nationalization of the oil industry, a goal Venezuelans in general want to achieve during the new presidential term rather than in 1983, as now officially scheduled to begin. As a first step, Perez reportedly plans to set up an autonomous government organization that will be responsible for planning and managing the early reversion to Venezuela of foreign-owned oil companies. The organization would be a cabinet-level office separate from the Ministry of Mines and Hydrocarbons, which would concern itself only with the day-to-day short range management of petroleum matters other than reversion.

Perez is likely to be a tough but not intractable bargainer. His hand is strong because he has both alternative markets for oil and other sources of investment as well as a huge budgetary leeway for absorbing the initial losses that would probably follow any reorientation of Venezuela's markets and trade relationships. If, despite his preference for good relations, he eventually arrived at an adversary relationship with the US, he could, with Venezuela's resources, break past ties with the US without risking an economic crisis. Perez is confident, however, that the US interest in continuing good relations with an important neighbor and in maintaining access to Venezuelan oil will lead to eventual accommodation to Venezuela's needs.

Venezuela has had oil development and market offers from Japan, Romania, Western Europe, and Brazil, but the US remains Venezuela's most attractive economic partner. This partnership is natural from a geographical standpoint and because of the history of a long political friendship during which abundant and varied lines of contact have developed. Because the great bulk of technical equipment throughout Venezuela's modern sector is made in the US, it will be much easier and less expensive for Venezuela to maintain its ties with the US than to break them. The frequent consonance of views in international affairs reinforces the comfortable relationship.

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The Petroleum Picture

Current oil production, around 3.2 million barrels a day, is about 3 percent above 1972 levels but is very near capacity. Recently tightened conservation restrictions could reduce 1974 production about 200,000 b/d. Production potential has declined because of limited exploration; proved reserves have declined and are now equal to about 11 years' production at current rates. The concession agreements call for reversion of concessions to the state beginning by 1983 without compensation. The net book value of US investment in the Venezuelan petroleum sector declined from almost $2 billion in 1960 to about $1.5 billion in 1972. Drilling activity was down from 632 wells in 1970 to 490 in 1972, and of these only 64 were exploratory.

Petroleum generates about one fifth of GNP, two thirds of government revenues, and 90 percent of export earnings. Revenues from oil have risen from $1.8 billion in 1972 to an estimated $2.8 billion in 1973. For the current year, revenues could reach $8-11 billion. In 1973, the government's budget amounted to only $3.4 billion.

Development of the Orinoco Tar Belt, which contains an estimated 700 billion barrels of heavy oil (of which about 10 percent is recoverable under current technology) will require estimated outlays of $4-6 billion to develop production of one million barrels daily and to acquire complex new technology.

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Views of the Oil Firms

US oil companies are generally optimistic about the new phase in relations that they believe is at hand. None realistically expects a return to the "good old days" of the early 1960s when Venezuela was content to play a secondary role in reaping the benefits from the exploitation of its own basic natural resources. Oil company officials are convinced that foreign firms have a definite role to play in the future of Venezuelan oil but not to the same extent as now. Venezuela, they feel, does not have the ability to handle the entire oil industry, including the development of the Orinoco Tar Belt, by itself and will need foreign know-how.

All company officials accept the inevitability of change in government-industry relations, are alive to the opportunities they believe can lie ahead, and have been seeking useful discussions with prospective officials of the incoming government. Different positions, scale of operations and corporate philosophies have given rise to differing tactical approaches. Although there are some differences of opinion as to the exact form the new company-government relations will assume, most US companies believe the Perez administration might promote a series of regional consortia, possibly with already established companies given a lead role, that would assimilate the existing patchwork of concessions. There is general belief that the next administration will probably move toward some Iranian-type arrangement whereby Venezuela will assume full ownership of producing areas with private companies providing services in exchange for assured purchase rights. [redacted]

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25X1 [redacted] Although Venezuelan nationalism is worrisome, and tax and price conditions can change overnight, several companies are prepared to invest in a joint venture with the government to exploit oil reserves in eastern Venezuela.

The US Embassy regards as a particularly encouraging aspect the widespread tendency among the oil companies to emphasize flexibility in dealing with the emerging petroleum situation. There is little of the pessimism and back-to-the-wall philosophy that was prevalent only last year.

Whether the present optimism is merely a lingering afterglow from the election results, or a realistic assessment of their position vis-a-vis the new government, is yet to be determined. The first few months of the new adminstration will set the tone. If the Venezuelans perceive a genuine willingness on the part of both the oil companies and the US to establish a dialogue with them on oil policy, then an important first step will have been taken to settle an issue that has come to cloud relations with the US.

Outlook

The generally auspicious outlook for US-Venezuelan relations would probably change only if Perez came to believe that the US was unwilling to consider and try to meet Venezuela's minimum needs. Meeting Venezuelan demands will not be easy for a variety of reasons, including legislative or treaty inhibitions on granting certain privileges and the scarcity of some of the goods Venezuela wants. Perez will probably argue, as Venezuelans have in the past, that "special relationships" like those they believe the US has with Mexico and Canada can be worked out.

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Because of the highly charged environment of the oil crisis and Venezuelan antipathy toward the oil companies, frictions in bilateral relations are inevitable. These probably will not pose a serious obstacle to a working arrangement that assures delivery of oil to the US, however, so long as Perez and his negotiators believe the US is responsive to what they see as economic and political necessities. [redacted]

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